

**MINUTES
REGULAR MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, February 16, 2007
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Dr. Keith Meredith, Chair of the ASRS Board, called the meeting to order at 8:38 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Dr. Keith Meredith, Chairperson
Mr. David Byers
Mr. Tom Connolly
Mr. Jaime Gutierrez
Mr. Chris Harris
Mr. Lawrence Trachtenberg
Mr. Steven Zeman

Absent: Mr. Michael Townsend, Vice-Chairperson
Mr. Karl Polen

Also in attendance was Mr. Jim McLaughlin, Trustee elect.

A quorum was present for the purpose of conducting business.

Dr. Keith Meredith, Chairperson, and Mr. Paul Matson, Director, took a moment to recognize Ms. Anne Mariucci, former Trustee, for her time served on the Arizona State Retirement System Board. Both Dr. Meredith and Mr. Matson recognized the loss that will be felt with Ms. Mariucci's departure from the Board as well as her tremendous ability to add value to both the Investment Committee and the Real Estate Committee.

2. Approval of the Consent Agenda

Motion: Mr. Dave Byers moved to approve Refunds, Death Benefits and Retirements for the months of December, 2006 and January, 2007;

And

Approve the minutes of the December 15, 2006, Regular Session of the ASRS Board

Mr. Steve Zeman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

3. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision

Ms. Regina Dunn addressed the Board regarding her appeal. Ms. Dunn stated that she was unable to properly rectify her overpayment issue due to the fact that her physician was arrested before any paperwork could be completed. Mr. Thomas McClory, Assistant Attorney General, explained to the Board that the issue at hand occurred in 1994 and should have been handled in a timelier manner by Ms. Dunn.

Motion: Mr. Jaime Gutierrez moved to accept the ruling of the Administrative Law Judge correcting the year on page one, paragraph one from 1995 to 1971 and the dates on page four, paragraph 17 from April 1998 and June 1998 to April 1988 and June 1988.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the Arizona State Retirement System's Comprehensive Annual Financial Report (CAFR)

Mr. John Hunter, Partner, Deloitte and Touche, L.L.P., addressed the Board regarding the unqualified Independent Auditor's Report that was issued to the ASRS' basic financial statements. Mr. Hunter stated that the ASRS' financial statements received an unqualified opinion which means that the financial statements are fairly stated in all material respects. Mr. Hunter noted that the auditors received full cooperation of the management of the system and there were no disagreements with management on any of the issues encountered during the audit. Deloitte and Touche finds the system's accounting records in excellent condition.

5. Presentation, Discussion and Appropriate Action Regarding the 2007 ASRS Legislation

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, presented the current status of the ASRS legislative initiatives. The Board was updated regarding HB 2141, HB 2143, HB 2145, HB 2146, HB 2147, HB 2148, SB 1060, SB 1199 and SB 1200.

6. Presentation, Discussion and Appropriate Action Regarding ASRS Investment Manager Evaluation/Decision Making Framework

Mr. Gary Dokes, Chief Investment Officer, and Mr. Dan Kapanak, Manager of Investment Strategies, presented the ASRS Investment Manager Evaluation/Decision Making Framework to the Trustees. Mr. Kapanak explained that the objectives of the Framework are to establish a systematic process for evaluating investment managers, codify current best practices, provide a consistent approach to performance measurement, and improve transparency of the rationale for recommendations. In addition, this agenda item represents the planning phase of the following three 2007 IMD Project Initiatives: Investment Management Performance Evaluation Framework, Risk Budgeting and Comprehensive Investment Manager Analysis.

Mr. Kapanak also explained that the portfolio management approach given in the Framework is already being followed but will become more formal and sophisticated. He outlined the 5Ps (people, philosophy, process, performance, positions), noting that Mercer's research has contributed greatly to "Process," and that "Performance" is the most involved aspect.

Motion: Mr. Chris Harris moved to adopt the ASRS Investment Manager Evaluation Framework Principles and Core Beliefs.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

Motion: Mr. Chris Harris moved to adopt the ASRS Investment Manager Evaluation Framework Schematic that is based on the 5 Ps (people, philosophy, process, performance, positions), incorporates portfolio management principles, and recognizes the importance of informed judgment.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

Motion: Mr. Chris Harris moved to adopt a risk-based approach to performance measurement that uses indexes as the primary benchmarks for measuring performance and uses Peer Group comparisons as supplemental information.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

Motion: Mr. Chris Harris moved to implement enhanced reporting to provide transparency into the rationale for specific investment manager recommendations to hire, retain, and/or terminate.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding Goldman Sachs Asset Management (GTAA), Batterymarch (U.S. Small Cap), Franklin (U.S. Mid Cap), and AXA Rosenberg (International Small Cap) Managers

Mr. Gary Dokes and Mr. Dan Kapanak presented information regarding the managers Goldman Sachs, Batterymarch, Franklin, and AXA Rosenberg to the Board. Mr. Kapanak began with a summary of Goldman Sachs' approach to investing.

Mr. Kapanak explained the rationale for the termination of Goldman Sachs is based on concerns with their investment process and performance albeit a relatively short evaluation period. More specifically there are concerns regarding rapid asset growth and a decreased focus on separate client accounts.

Mr. Chris Harris expressed his concerns that this decision seems to conflict with the Manager Evaluation Framework that was just voted upon by the Trustees. Specifically, the Framework advises waiting three to five years to have sufficient time to evaluate a manager and Mr. Harris expressed that he did not think Goldman Sachs had enough time to be properly evaluated.

Mr. Dokes addressed Mr. Harris, stating that after several talks with the manager and the concerns that have been raised in regard to the manager, the general consensus was that moving forward with the termination was the appropriate action to take.

Motion: Mr. Larry Trachtenberg moved to terminate Goldman Sachs Asset management (GSAM) as an ASRS GTAA manager.

Mr. Tom Connolly seconded the motion.

By a vote of 6 in favor, 1 opposed, 0 abstentions, and 2 excused, the motion was approved.

Motion: Mr. Larry Trachtenberg moved to transition the GSAM GTAA portfolio of approximately \$1.4 billion as follows:

- Transition assets of approximately \$400 million to Bridgewater Associates, ASRS' other existing GTAA manager.
- Modify Bridgewater Associates GTAA investment guidelines to allow for the tactical investments in commodities within a permissible range of $\pm 20\%$ of the market value of the total portfolio.

- Maintain the remaining approximately \$1.0 billion in Barclay Global Investors (BGI) Index Funds; portfolio will be rebalanced and benchmarked to ASRS Total Fund Policy Benchmark.
- Conduct a GTAA investment manager(s) search and recommend a course of action for the final disposition of GTAA assets.

Mr. Tom Connolly seconded the motion.

By a vote of 6 in favor, 1 opposed, 0 abstentions, and 2 excused, the motion was approved.

Mr. Trachtenberg indicated that due to a potential conflict of interest, he was abstaining from discussing and voting during the remaining part of the item.

Mr. Dan Kapanak gave a summary of Batterymarch's approach to investing.

Mr. Kapanak stated that the decision to terminate Batterymarch is based on concerns with their investment process and performance albeit a relatively short evaluation period. More specifically, there are concerns that their simplistic quantitative investment process may be ineffective, there are equity ranking factor inconsistencies, performance and strategy inconsistencies as well transparency issues.

Migrating assets to TimesSquare, the ASRS U.S. Equity Small/Mid Cap, is based on a positive assessment of TimesSquare's fundamental investment process and favorable historical and anticipated future expected excess index performance, an objective to maintain active Small Cap management exposure, and a recognition of a limited universe of small-cap equity manager search candidates with favorable investment process/performance attributes and available mandate capacity.

Motion: Mr. Chris Harris moved to terminate Batterymarch as an ASRS U.S. Small Cap investment manager.

Mr. Tom Connolly seconded the motion.

By a vote of 6 in favor, 0 opposed, 1 abstention, and 2 excused, the motion was approved.

Motion: Mr. Chris Harris moved to transition approximately \$140 million from Batterymarch to TimesSquare, ASRS U.S. Equity Small/Mid Cap manager.

Mr. Tom Connolly seconded the motion.

By a vote of 6 in favor, 0 opposed, 1 abstention, and 2 excused, the motion was approved.

8. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance Overview for the Quarter Ending 12/31/06

Mr. Terry Dennison, Principal, Mercer Consulting, addressed the Board regarding the Total Fund Performance Overview for the period ending December 31, 2006, highlighting specific areas of interest and concern.

Mr. Dennison reported on the Total Fund Performance for the period ending December 31, 2006.

	Quarter	1 Year	3 Years	5 Years	10 Years	Inception
Total Fund	6.0%	14.0%	10.6%	8.2%	8.9%	11.0%
Benchmark*	5.8%	14.3%	10.2%	7.7%	7.8%	10.8%
Excess Return	0.2%	-0.3%	0.4%	0.5%	1.1%	0.2%

* Interim Benchmark: 55% S&P 500, 28% LB Aggregate, 16% MSCI EAFE/ACW ex. US(1), and 1% NCREIF+100 bps.

Note: Interim Benchmark incorporates a proration of 5% real estate.

Policy History:

- 7/1/75-12/31/79 – 40% S&P 500/60% LB Aggregate
- 1/1/80-12/31/83 – 50% S&P 500/50% LB Aggregate
- 1/1/84-12/31/91 – 60% S&P 500/40% LB Aggregate
- 1/1/92-12/31/94 – 50% S&P 500/40% LB Aggregate/10% EAFE
- 1/1/95-6/30/97 – 45% S&P 500/40% LB Aggregate/15% EAFE
- 7/1/97-12/31/99 – 50% S&P 500/35% LB Aggregate/15% EAFE
- 1/1/00-9/30/03 – 53% S&P 500/30% LB Aggregate/17% EAFE
- 10/1/03-present – 53% S&P 500/26% LB Aggregate/15% MSCI EAFE/ACW ex. US(1)/6% NCREIF+100 bps.

(1) MSCI EAFE/ACW ex. US Benchmark is the MSCI EAFE prior to 10/1/05 and the MSCI ACW ex. US thereafter.

9. Presentation, Discussion and Appropriate Action Regarding the U.S. Small Cap Equity Managers Reporting on the Quarter Ending 12/31/06

Mr. Gary Dokes presented the U.S. Small Cap Equity Managers reporting on the quarter ending December 31, 2006. Mr. Dokes stated that as of December 31, 2006, the total market value of the ASRS Small Cap asset class was \$1.7 billion and represented approximately 6% of the ASRS total fund. Byram was terminated in February 2006 for performance and process concerns. The Byram assets were transferred to the Mellon Capital indexed Russell 2000 mandate. The Mellon Capital mandate was terminated in late December 2006 and served to fund an in-house passive S&P 600 mandate, E6. Small Cap Equity assets are currently managed in four portfolios: three active portfolios and one passive portfolio. Since inception, the Small Cap asset class has added value relative to its benchmark, the Russell 2000 index.

Batterymarch Financial Management underperformed the index and placed below the universe median for all periods evaluated. Mercer rates this product A (above average probability of outperformance).

TimesSquare underperformed the index and placed below the universe median for the recent quarter. For all other periods evaluated, the portfolio outperformed its benchmark. Mercer rates this product A (above average probability of outperformance).

Dimensional Fund Advisors outperformed the index for all periods evaluated except one year. The portfolio placed above the universe median for all periods. Mercer rates this product B (average probability of outperformance).

10. Presentation, Discussion and Appropriate Action Regarding ASRS Long Term Disability (LTD) Program Asset Allocation Policy

Mr. Gary Dokes and Mr. Thomas Williams, Fixed Income Portfolio Manager, presented the ASRS Long Term Disability (LTD) Program Asset Allocation Policy to the Trustees. Mr. Dokes stated that the ASRS LTD Program began on July 1, 1995, and covers participants who become disabled on or after July 1, 1995. Before July 1, 1995, the ASRS provided long-term disability benefits from its pension plan.

Mr. Williams stated that the two most notable differences between the new Plan asset allocation policy and the recommended LTD asset allocation policy are:

1. The LTD real estate exposure is 100% securities, with no private real estate exposure.
2. The LTD U.S. Equity exposure includes an additional 5% that the Plan allocates to private equity.

The performance of the LTD program since inception has been fairly consistent with that of the Plan. However, some positive performance variances between the programs exist and are primarily attributable to differences in the programs' manager composition, the active/passive allocations and real estate investment assets.

The recommended modifications to the ASRS LTD asset allocation policy are expected to further improve the risk/return profile of the program, increase diversification and expected returns without materially affecting the program's liquidity requirements, and maintain a similar investment allocation policy to the Plan.

Asset Class	LTD Program Asset Allocation Policy		Plan Asset Allocation Policy
	Current	Proposed	Current
U.S. Equity	53% +/- 5%	50% (45-55%)	45% (40-50%)
International Equity	15% +/- 5%	18% (13-20%)	18% (13-20%)
U.S. Fixed Income	26% +/- 5%	26% (21-31%)	26% (21-31%)
Real Estate	6% +/- 2% (securitized)	6% (4-8%) (securitized)	6% (4-8%) (securitized & private)
Private Equity	0%	0%	5% (3-7%)

Motion: Mr. Chris Harris moved to approve modifications to the ASRS LTD program's asset allocation policy to more closely match that of the ASRS Plan asset allocation policy as follows: U.S. Equity, target of 50% and a range of 45% to 55%, International Equity, target of 18% and a range of 13% to 20%, U.S. Fixed Income, 26% and a range of 21% to 31%, Real Estate, 6% and a range of 4% to 8% securitized and Private Equity, 0%.

Mr. Larry Trachtenberg seconded the motion

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

11. Presentation, Discussion and Appropriate Action Regarding the External Audit Request for Proposal

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, and Mr. Bob Wittsell, Procurement Manager, addressed the Board regarding the External Audit Request for Proposal. Mr. Wittsell explained that the State Procurement Office of the Arizona Department of Administration (ADOA) has designated the ASRS as the strategic contracting center for the procurement of external financial and performance auditing services for all state agencies. The ASRS conducted the needs analysis for all state agencies' audit services and, with approval from the State Auditor General's office, wrote and issued the RFP in the summer of 2006. Proposals were received from the following firms: Deloitte & Touche (current ASRS external auditor), Heinfeld, Meech & Company, and RSM McGladrey.

An evaluation committee comprised of ASRS staff and one Trustee conducted an initial review and discussion of the proposals to determine which offerors proposed the best value services. Interviews were conducted both at the ASRS and at the firms.

Dr. Meredith instructed the Trustees that they would have to vote to enter into an Executive Session if anything more than general questions needed to be asked.

Motion: Mr. Dave Byers moved to approve the Evaluation Committee's recommendation that the primary contract for ASRS external audits be awarded to Heinfeld, Meech & Company and a backup contract be awarded to RSM McGladrey.

Mr. Steve Zeman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

12. Presentation, Discussion and Appropriate Action Regarding the Review of the 2006 Strategic Initiatives of the ASRS

Mr. Paul Matson discussed the 2006 Strategic Initiatives of the ASRS noting key goals, their individual success criteria, and an update of each item's progress.

ASRS 2006 Strategic Initiatives			
	Initiative	Criteria	Status Update
1.	Governance AAgency	<ul style="list-style-type: none"> ▪ Handbook Requirements Achieved ▪ Prudent Handbook Modifications Recommended ▪ Prudent Handbook Modifications Implemented ▪ Efficient Governance and Management Enabled ▪ Efficient Governance and Management Promoted 	Achieved – Board Governance Handbook was reviewed at the December 2006, Board meeting and recommended changes were made. A follow-up review and discussion may occur at the September 2007 Strategic Planning Board meeting.
2.	Retain Trustee and Executive Focus on Strategic Issues	<ul style="list-style-type: none"> ▪ Prudent Delegations Enhanced ▪ Focus on Oversight and Forward Thinking 	Achieved – the new ASRS Strategic Plan was approved at the February 2006 Board meeting. A status update will be made at the March 2007 Board meeting.
3.	Enhance Leadership Role: Pension Plan, Health Insurance Plan, and LTD Plan	<ul style="list-style-type: none"> ▪ Mitigate Contribution Rate Increases ▪ Increase Fiscal Stability ▪ Ensure Plan Viability ▪ Ensure Plan Longevity 	Partially Achieved – Significant and detailed studies were conducted to identify trends and plan provision sensitivities. These studies fashioned the Agency’s 2007 legislative initiatives. Numerous external entities were engaged, with the ASRS partially acting in a leadership role.
4.	Pension Plan Design Review	<ul style="list-style-type: none"> ▪ Engagement of Governor’s Office, Legislature, Membership, Groups, Associations ▪ Options Provided to Policy Makers 	Achieved – Nineteen organizations, the agency’s two primary legislative committee chairs, and the Governor’s Office were presented with the 2007 legislative agenda for engagement and discussion.
5.	Hybrid “System”	<ul style="list-style-type: none"> ▪ Options Determined ▪ Mitigate Benefit Reduction Risk ▪ Required Implementations Completed 	Achieved – Detailed analyses were conducted and meetings were held with System members to offer an optional retirement scenario. In the final analysis, neither the ASRS nor the System members advocated any changes at this time.

ASRS 2006 Strategic Initiatives			
	Initiative	Criteria	Status Update
6.	Total Fund Investment Review	<ul style="list-style-type: none"> ▪ Asset Allocation Study Completed ▪ Prudent New Asset Classes Implemented ▪ Prudent New Investment Strategies Implemented 	Achieved – Asset Allocation Study completed. New ASRS Asset Allocation policy adopted by the Board October 2006, and includes use of opportunistic asset classes, absolute return strategies, the strategic allocation to private equity asset class, and modest policy targets/ranges and benchmarks changes in Equities.
7.	Investment Culture	<ul style="list-style-type: none"> ▪ Invigorate Idea Generation ▪ Encourage Idea Conviction ▪ Expect Idea Champions and Subject Matter Experts ▪ Support Actionable Implementation 	<p>Achieved – Generated and evaluated ten value-added investment initiatives of which two strategic initiatives were presented to the Investment Committee for consideration, one of which was approved by the Board, i.e., Jacobs Levy (JL) U.S. Equity Long/Short (120/20) Portfolio Strategy. Implementation included the hiring of a prime broker and the transition of assets by IMD to JL from an externally-managed passive large-cap index portfolio.</p> <p>Additionally, several tactical modifications to select ASRS Equity, Fixed Income and Global Tactical Asset Allocation (GTAA) managers’ portfolio guidelines occurred which were identified as potential sources of future incremental alpha.</p>
8.	Real Estate Program	<ul style="list-style-type: none"> ▪ Modify Infrastructure ▪ Implement Tactical Decision Making ▪ Focus on Action Over Process ▪ Expect Innovation 	Achieved – Real estate program modifications included: changes in IMD real estate functions/personnel, the hiring of The Townsend Group as the new real estate consultant and revisions to the ASRS Real Estate Investment Plan document which was approved by the Board. Implementation of the Plan resulted in the hiring of five external real estate portfolio managers and modifications to the policies and procedures consistent with changes to the ASRS Real Estate Plan.

ASRS 2006 Strategic Initiatives			
	Initiative	Criteria	Status Update
9.	Effective Completion of Key Information Technology Projects	<ul style="list-style-type: none"> ▪ On-Line WEB Service Access ▪ Long Term Disability ▪ FileNet Workflow ▪ Forfeitures and Disbursements ▪ Financial Management System ▪ Benefit Estimates ▪ Online Contribution Posting 	<p>Achieved – Implemented a secure member login and registration feature and also provided logged-in members with view access to their most current data on file and their most recent member statement.</p> <p>Achieved – Completed efforts to modernize LTD processes, which are expected to save the agency over \$1 million per year due to more precise LTD benefit calculations, reducing overpayments to members and reducing staff effort to maintain accounts.</p> <p>Achieved – Implemented new hardware and software applications which will facilitate faster processing of many business processes through automated workflow.</p> <p>Achieved – A new forfeitures system was successfully implemented which is expected to save the agency over \$100,000 per year by utilizing imaging, workflow and automation capabilities, reducing the effort required to process a member request.</p> <p>A centralized disbursements platform was successfully designed and implemented which will allow the agency to organize and disburse various types of payments to members with greater frequency.</p> <p>Achieved – An integrated financial system was implemented that will help the agency consolidate and more efficiently manage its various financial accounting functions.</p> <p>Achieved – A new benefit estimate program was deployed which is expected to eventually save the agency nearly \$200,000 per year by utilizing imaging, workflow, and automation capabilities to reduce the effort required to process a member request.</p> <p>57% complete, completion date 2nd Quarter 2007 – When completed will provide an electronic means of collecting contribution and service purchase data and monies via the ACH program already in</p>

ASRS 2006 Strategic Initiatives			
	Initiative	Criteria	Status Update
	Other Initiatives in #9	<ul style="list-style-type: none"> ▪ New Retirees ▪ Survivor Benefits ▪ Imaging ▪ Data Integrity ▪ Performance Reporting ▪ Member Survey Enhancements 	<p>place.</p> <p>39% complete, completion date 4th Quarter 2007 – When completed will improve service to members by significantly shortening the time and effort it currently takes for the agency to calculate a retirement pension and issue initial disbursements.</p> <p>42% complete, completion date 4th Quarter 2007 – When completed will improve service to members by significantly shortening the time and effort it currently takes to proves a survivor benefit claim.</p> <p>Achieved – Converted over 12 million documents (member files) to electronic images which are easily accessed by staff.</p> <p>Ongoing through 2008 – Progress was made in data clean-up activities and also in developing the necessary processes and procedures to ensure member account information is kept current.</p> <p>Ongoing through 2008 – A prototype for a more comprehensive, yet easy to read set of performance reports was developed for the refund process, which will be duplicated for other upcoming projects.</p> <p>Ongoing through 2008 – Staff enhanced it survey capabilities by implementing surveys targeted to individual services and increasing sample sizes.</p>

ASRS 2006 Strategic Initiatives			
	Initiative	Criteria	Status Update
10.	Supplemental Retirement Savings Plan (SRSP)	<ul style="list-style-type: none"> ▪ Determine Vendor Relationships ▪ Disseminate SRSP Roll Out ▪ Implement SRSP Program Pending DROP Repeal 	<p>Significantly Achieved – The SRSP vendor RFP was issued and Nationwide was selected subsequent to the DROP repeal by the legislature. Formulating employer roll-out process presently.</p> <p>Outstanding items include final selection of investment options, details of the brokerage window, and modification of certain program parameters via legislative amendment.</p>

13. Presentation, Discussion and Appropriate Action Regarding the 2007 Strategic Initiatives

Mr. Paul Matson presented the proposed 2007 Strategic Initiatives of the ASRS.

ASRS 2007 Strategic Initiatives		
	Initiative	Criteria
11.	Agency Governance	<ul style="list-style-type: none"> ▪ Handbook requirements achieved. ▪ Prudent handbook modifications recommended. ▪ Prudent handbook modifications implemented. ▪ Efficient governance and management enabled. ▪ Efficient governance and management promoted.
12.	Retain Trustee and Executive Focus on Strategic Issues	<ul style="list-style-type: none"> ▪ Prudent delegations enhanced. ▪ Focus on oversight and forward thinking.
13.	Enhance Leadership Role: Pension Plan, Health Insurance Plan, LTD Plan, Investment Management	<ul style="list-style-type: none"> ▪ Mitigate contribution rate increases and volatility. ▪ Increase fiscal stability. ▪ Ensure plan viability. ▪ Ensure plan longevity.
14.	Investment Culture	<ul style="list-style-type: none"> ▪ Encourage value-added idea generation. ▪ Expect idea champions and subject matter experts. ▪ Support actionable implementation. ▪ Risk budgeting. ▪ Performance evaluation framework implemented.
15.	Private Equity Program	<ul style="list-style-type: none"> ▪ Create program Strategic Plan Document. ▪ Develop program's tactical implement plan. ▪ Expect innovation.
16.	Business Re-engineering and IT Plan	<ul style="list-style-type: none"> ▪ Remaining online contribution reporting functions (from 2006). ▪ Remaining new retiree functions (from 2006). ▪ Remaining survivor benefits functions (from 2006). ▪ Implementation of non-retired web self-services (personal data changes). ▪ Implementation of retired web self-services (personal data changes). ▪ Contributions posting (begin, but not finish). ▪ Pension payroll (begin, but not finish).

ASRS 2007 Strategic Initiatives		
17.	Data Integrity – Member Records	<ul style="list-style-type: none"> ▪ Continue to work with employers to further reduce the number of active members with missing data. ▪ Complete efforts to convert historical member records from paper to electronic form. ▪ Identify inactive members who have invalid addresses on file or are deceased; begin efforts to locate these members or their beneficiaries. ▪ Develop and implement ongoing processes for the handling of inactive accounts. ▪ Implement new and improved disbursement controls.
18.	Customer Service Improvements	<ul style="list-style-type: none"> ▪ Begin efforts to develop an ASRS Brand of Customer Service that reflects the agency's values. Implement necessary strategies and action plans to reinforce behaviors that will develop, cultivate, and support those values. ▪ Expand cross training efforts and maximize staff redeployment capabilities, with emphasis on improving service delivery at member contact points (MSAC, walk-in center, contact us) during peak periods of demand. ▪ Assess current service hours provided for members and determine if they can be better aligned to meet member needs while remaining cost justifiable. ▪ Implement an automated messaging system that will estimate wait time for members who call the MSAC. ▪ Review and re-design, if necessary, the agency's automated call distribution system.

Motion: Mr. Steve Zeman moved to accept the proposed strategic initiatives for calendar year 2007.

Mr. Dave Byers seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

14. Director's Report

Mr. Paul Matson, Director, updated the Trustees on the presence of the newly revised travel report in the Director's Report. Mr. Matson explained that the report was updated with all travel for 2006 in an effort to exhibit full disclosure of all out of state travel.

15. Possible Presentation Regarding Board Committee Updates

Mr. Jaime Gutierrez, Chair, External Affairs Committee, stated that the External Affairs Committee would be fairly busy the next three months with a focus on the legislative session.

Mr. Larry Trachtenberg, Chair, Investment Committee, had no comments.

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, reported that the Operations Committee would be engaged in the agency wide risk assessment.

16. Board Requests for Agenda Items

There were no requests for future agenda items.

17. Call to the Public

Mr. Brent Fine, Member, ASRS, addressed the Board regarding his concern for the state of the Fund. Mr. Fine expressed his opinion that there was a link between state employee's salaries and a lack of permanent benefit increases (PBIs) and cost of living increases (COLAs). Mr. Paul Matson explained to Mr. Fine that the actuarial science behind decisions made about the Fund do not support such a theory.

18. The next ASRS Regular Board meeting is scheduled for Friday, March 16, 2007, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

19. Adjournment of the ASRS Board

Dr. Meredith adjourned the February 16, 2007 Board meeting at 12:05 p.m.

ARIZONA STATE RETIREMENT SYSTEM

Anne Schrode, Secretary

Date

Paul Matson, Director

Date